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In The
Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS INC., et al.,

Petitioners,

v.

GROKSTER, LTD., et al.,

Respondents.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF OF PROFESSORS PETER S. MENELL, DAVID NIMMER, ROBERT P. MERGES, AND JUSTIN HUGHES, AS *AMICI CURIAE* IN SUPPORT OF PETITIONERS

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INTEREST OF *AMICI CURIAE*

The authors of this brief are professors of law who have conducted research on copyright and patent law for nearly two decades and have particular expertise on the challenges posed by digital technology. We have received consent to file this *amicus* brief from both parties in this litigation.[1] We submit views on what we perceive to be the crucial issue in this case because we believe that the litigation thus far has skirted fundamental questions regarding the proper interpretation of the Copyright Act and this Court's decision in *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

SUMMARY OF ARGUMENT

This case turns on whether the Supreme Court's 1984 decision in *Sony* conclusively resolves at the summary judgment stage the present dispute – involving strikingly different technology that was unimaginable at the time that the *Sony* case was decided. Although some of the language used in the *Sony* decision – stating that providers of technology that is capable of substantial non-infringing uses cannot be subject to contributory infringement liability – appears to predetermine the outcome of this matter, such a far-reaching, prospective rule goes well beyond the language or intent of the Copyright Act and misconstrues the proper judicial function in copyright adjudication. Over the course of nearly two centuries, courts have evolved, with tacit legislative consent, a rich infringement jurisprudence that balances a range of considerations on a case-by-case basis. This jurisprudence has long recognized indirect as well as direct infringement.

[1] Acting solely on behalf of ourselves, we offer these views to the Court in the spirit of *pro bono publico*. None of the signatories to this brief have received any financial remuneration for submitting this brief.

In its comprehensive reform and codification of copyright law in the 1976 Copyright Act, Congress purposefully reaffirmed the continued applicability and evolution of this jurisprudence. At the same time, Congress established various express immunities, compulsory licenses, and other categorical limitations on liability. It would be incongruous, therefore, for courts to read additional categorical immunities into the Copyright Act's liability regime. Congress has since added numerous other limitations to copyright liability, none of which bar a finding of infringement in the present case. Several amendments prohibit trafficking of particular classes of technology capable of substantial non-infringing uses.

The *Sony* Court derived its "staple article of commerce" standard by analogizing to the Patent Act. Transplanting such a rule from the Patent Act, however, misapprehends critical differences between the two legal regimes. Whereas patent law seeks to promote technological innovation and evolved a staple article of commerce doctrine primarily out of concern for unduly expanding patent scope, copyright law seeks to promote cultural and social progress, manifesting a more cautious stance toward technological dissemination, particularly where a technology threatens widespread piracy of expressive works. Furthermore, amendments to the Copyright Act since the *Sony* decision demonstrate that Congress does not believe that dual-use technology – i.e., technology that is capable of both infringing and substantial non-infringing uses – should be treated as inviolate under copyright law. Rather, Congress has shown that it sees a need to balance the efficacy of the copyright system for promoting creative expression against social interests in technological innovation and consumer autonomy.

Consequently, this Court should clarify that indirect copyright infringement liability requires a balancing of factors based on the protection of copyright owners' rights and other recognized interests and concerns undergirding copyright law. Adverse effects of potential liability on

incentives to innovate can and should be considered in such a balance, but no judicially established safe harbors should be recognized or imposed. Any such prospective, categorical safe harbors are properly within the exclusive power of Congress. Until such time as Congress establishes a staple article of commerce immunity to copyright liability, courts should continue to evolve balanced infringement standards that respond to new technologies guided by the text, structure, and purposes of copyright law.

For the present case this means that the Ninth Circuit's decision to affirm summary judgment dismissing the plaintiffs' cause of action should be overturned and the case remanded for a full trial applying an appropriate balancing test. This Court should clarify that copyright liability extends to acts inducing copyright infringement and that contributory and vicarious liability should be judged on the basis of traditional criteria, including considerations of causation, knowledge, and intent. Given the policies animating copyright law, the standard for indirect liability should balance the harm to copyright owners against adverse effects on consumers from the loss of non-infringing uses from dual-use technologies. Such a balance should consider the full range of factors, including the relative magnitudes (present and foreseeable) of infringing and non-infringing use, the degree of control exercised by manufacturers and distributors of means for reproducing and distributing works of authorship, the intent of such enterprises, the extent to which non-infringing uses can be continued without the technologies at issue, and the extent to which copyright owners can limit unauthorized uses of their works (without undue expense or loss of market). Such an approach would continue the judiciary's vital role as a flexible and responsive institution for addressing evolving challenges to the copyright system. Until such time as Congress expressly enacts a safe harbor in the Copyright Act analogous to patent law's staple article of commerce doctrine, the

distributor of technology that is merely *capable* of substantial non-infringing uses (but is in fact used predominantly to facilitate massive infringement) should not be categorically immune from copyright liability.

ARGUMENT

I. From Its Inception, Federal Copyright Law Has Envisioned that Courts Will Play a Central and Ongoing Role in Evolving Infringement Standards

A. The Evolution of Copyright Infringement Standards Through the 1976 Act

Copyright infringement standards developed from an austere statutory foundation. The first federal copyright act, passed in 1790, provided simply that "any person or persons who shall print or publish any manuscript, without the consent and approbation of the author or proprietor thereof . . . shall be liable to suffer and pay to the said author or proprietor all damages occasioned by such injury." Act of May 31, 1790, ch. 15, sec. 6. The Act did not provide a formal definition of infringement. General revisions in 1831 and 1870, while expanding the range of works of authorship eligible for statutory protection, did not elaborate the infringement standard. Nor did the 1909 Copyright Act, which stated simply that any person who "shall infringe the copyright in any work protected under the copyright laws of the United States . . . shall be liable" for various remedies. See 17 U.S.C. § 25 (1909 Act), recodified § 101 (1912 Act); see also H. Committee Print, 89th Cong., 1st Sess., Copyright Law Revision Part 6, Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law; 1965 Revision Bill (May 1965), chapter 7 (Copyright Infringement and Remedies) at p. 131 ("It seems strange, though not very serious, that the present law lacks any statement or definition of what constitutes an infringement.").

Against this bare legislative backdrop, courts, since the earliest cases, have given substance to what constitutes infringement through their traditional common law process. The now well-established tools and concepts of copyright infringement analysis – the requirement of substantial similarity, the various tests for substantial similarity, the inverse ratio test (balancing access with probative similarity to determine circumstantial evidence of copying) – as well as limiting doctrines such as de minimis use and fair use all sprouted from judicial crafting of an open-ended statutory provision. See, e.g., *Nichols v. Universal Pictures Corp.*, 45 F.2d 119 (2nd Cir. 1930) (levels of abstraction test); *Folsom v. Marsh*, 9 F. Cas. 342, 344-345 (Cir. Ct. Mass. 1841) (precursor to fair use). As a result, copyright infringement analysis has long reflected an incremental, balanced jurisprudence applied on a case-by-case basis. See generally 4 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 13.03.

Similarly, courts have long recognized that copyright liability extends to those who contribute to or vicariously profit from the infringing acts of others. The indirect infringement jurisprudence has viewed the concept of copyright liability broadly to encompass more general, tort-like notions of responsibility. Cf. Restatement (Second) Torts §§ 876-77; see *Kalem Co. v. Harper Brothers*, 222 U.S. 55, 62-63 (1911) (observing that contributory liability is a principle "recognized in every part of the law"). The cases have incorporated contributory liability (derived from enterprise liability), vicarious liability (based on *respondeat superior*), and inducement liability. As with more general infringement doctrines, courts have sought to balance competing considerations on a case-by-case basis. See generally 3 Nimmer on Copyright § 12.04 (summarizing and analyzing cases).

Thus, the common law nature of both direct and indirect infringement liability has eschewed bright line rules in favor of open-ended balancing that is sensitive to the changing circumstances – technological and otherwise

– that affect the rights of copyright owners and users of copyrighted works.

B. The 1976 Act

By the mid 1950s, the 1909 Act was showing signs of age. The explosion of new technologies for creating, reproducing and, most importantly, broadcasting works of authorship, had fundamentally changed the copyright environment during the first half of the 20th century. Congress called upon the Librarian of Congress to undertake a detailed review of the copyright system and to recommend a comprehensive revision of the 1909 Act. The product of two decades of analysis and deliberations, the 1976 Act substantially revised and augmented many of the core provisions. One of the areas to emerge largely unaltered was the standard for and scope of infringement. Intent on retaining the process and principles of infringement analysis developed within the courts, Congress adhered to a terse formulation of the infringement standard: "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be." 17 U.S.C. § 501 (as initially enacted). One change in the legislative framework relating to infringement law was the decision to codify the fair use doctrine. 17 U.S.C. § 107. But even here, Congress intended that courts would continue to evolve and apply this standard on a case-by-case basis drawing upon the accumulated case law from which the codification was drawn. H.R. Rep. No. 1476, 94th Cong., 2d Sess. 66 (1976) ("[t]he bill endorses the purpose and general scope of the judicial doctrine of fair use. . . . the courts must be free to adapt the doctrine to particular situations on a case-by-case basis."); see Justin Hughes, Fair Use Across Time, 50 UCLA L. Rev. 775, 793, n.59 (2003). Congress did, however, establish several immunities, compulsory licenses, and other categorical

exceptions to liability. See, e.g., 17 U.S.C. § 108 (categorical exception for libraries and archives under certain conditions); 17 U.S.C. § 118 (public broadcasting compulsory license); see generally Robert P. Merges, Peter S. Menell, and Mark A. Lemley, Intellectual Property in the New Technological Age 440-42 (3d ed. 2003).

Neither the advisory committees nor Congress devoted much attention to the standards for indirect liability as they were not a contentious issue. None of the many participants in the hearings advocated change in the way such liability was addressed under the 1909 Act. Other matters – including the shift from a dual term structure (with renewal) to a unitary term, codification of fair use, the protection of sound recordings, and the treatment of juke boxes and cable television – attracted the bulk of attention. The specific legislative history of the 1976 Act does, however, make two direct references to indirect liability standards, both of which supported the continuation of then existing doctrines (and evolutionary processes). In explaining the general scope of copyright, the House Report recognizes contributory liability:

> The exclusive rights accorded to a copyright owner under section 106 are 'to do and to authorize' any of the activities specified in the five numbered clauses. Use of the phrase 'to authorize' is intended to avoid any questions as to the liability of *contributory* infringers. For example, a person who lawfully acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance.

H.R. Rep. No. 94-1476 at 61 (emphasis added). Note that this excerpt treats contributory liability in terms of intent – "for purposes of." In discussing the infringement section, the House Report includes the following explanation:

Vicarious Liability for Infringing Performances

The committee has considered and rejected an amendment to this section intended to exempt the proprietors of an establishment, such as a ballroom or night club, from liability for copyright infringement committed by an independent contractor, such as an orchestra leader. A well-established principle of copyright law is that a person who violates any of the exclusive rights of the copyright owner is an infringer, including persons who can be considered related or vicarious infringers. To be held a related or vicarious infringer in the case of performing rights, a defendant must either actively operate or supervise the operation of the place wherein the performances occur, or control the content of the infringing program, and expect commercial gain from the operation and either direct or indirect benefit from the infringing performance. The committee has decided that no justification exists for changing existing law, and causing a significant erosion of the public performance right.

Id. at 159-60. That excerpt shows an intent that the principles of vicarious liability that had been developed through the courts would continue to apply under the 1976 Act.

This manner of addressing indirect liability in the copyright law differs markedly from the way in which Congress delineated the boundaries of indirect liability in the Patent Act. In the comprehensive reform of that law in 1952, Congress expressly provided:

> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271.

II. The Analogy to Patent Law Upon Which the *Sony* Staple Article of Commerce Doctrine Was Based Does Not Hold

Given the foregoing history, it is more than a little surprising that this Court in 1984 would appear to have engrafted the Patent Act's express staple article of commerce safe harbor into the then recently enacted comprehensive reform of the Copyright Act, which lack any such express provision. In view of the specific facts and other determinations in the *Sony* case, however, it is not at all clear that such a categorical approach to indirect liability was necessary or fully considered.[2] On the basis of a full trial record, the majority accepted the trial court's conclusion that a significant percentage of home recording was authorized, 464 U.S. at 443 ("the findings of the District Court make it clear that . . . many producers are willing to allow private time-shifting to continue"), and endorsed the trial court's view that any unauthorized time-shifting was fair use, 464 U.S. at 454-55 ("[W]e must conclude that this record amply supports the District Court's conclusion that home time-shifting is fair use."). In combination, these findings come close to a determination that there were no proven infringing uses. The *Sony* plaintiffs also failed to adduce significant evidence of actual or prospective harm

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[2] Cf. Jonathan Band and Andrew J. McLaughlin, The Marshall Papers: A Peek Behind the Scenes at the Making of Sony v. Universal, 17 Colum.-VLA J.L. & the Arts 427 (1993).

from the use of the VCR technology. 464 U.S. at 452-54 (quoting the district court that "[p]laintiffs have admitted that no actual harm to their copyrights has occurred" and that "[h]arm from time-shifting is speculative and, at best, minimal.").

These determinations relieved much of the pressure on delineating the contours of indirect liability. Once that determination was in place, even under the dissent's "primary use" test, the VCR would not have violated the Copyright Act. Accepting the majority's conclusion that time shifting by users fell within the bounds of the fair use defense, the net balance strongly favored continued marketing of the VCR technology. Thus, the indirect liability standard selected by the majority in *Sony* was not critical to the outcome of the case. The Court's consideration of the issue was cursory and the importation of part of patent law's statutory standard for indirect liability lacked any direct legislative support.

Even in 1984, the analogy between patent and copyright for purposes of addressing indirect liability was strained. With 20 years of further statutory development of copyright law, it is now apparent that the patent and copyright regimes differ fundamentally in their treatment of dual-use technology – technology that is capable of both infringing and non-infringing uses. Therefore, the premise on which the importation of the Patent Act's § 271(c) safe harbor was based cannot withstand scrutiny.

A. The Wholesale Judicial Incorporation of a Statutory Patent Law Defense into Copyright Law Was Questionable When Enunciated in 1984

Beyond noting the common constitutional lineage and the "historic kinship" between the patent and copyright systems, the *Sony* decision offers little analysis or justification for transplanting the Patent Act's staple article of

commerce doctrine into interpretation of the scope of copyright infringement. A closer examination of the origin, evolution, and role of this patent law doctrine as well as the significant *differences* between the patent and copyright systems as regards the role of technology and enforcement challenges caution against such radical surgery.

While central to both patent and copyright law, technology plays very different roles in the two regimes. In patent law, technological innovation is the end to which the system is directed. Patent claims determine the limits of the patent reward and the law seeks to ensure that patentees do not control more than they invented and rightfully claim. The staple article of commerce doctrine arose as a way of balancing the doctrines of contributory liability (enhancing enforceability and expanding the scope of patents by enabling patentees to limit the sale of complementary products) and patent misuse (antitrust-like limits on the leveraging of patent rights). As recounted in *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176, 205-06 (1980), several overbroad patent misuse decisions had effectively eliminated the doctrine of contributory liability. See Robert P. Merges & John F. Duffy, Patent Law and Policy 1375 (3d ed. 2002). Congress enacted Sections 271(c) and (d) of the 1952 Patent Act in order to restore contributory liability, but subject to anticompetitive limitations on patent scope. The staple article of commerce doctrine embodied in Section 271(c) provided the fulcrum for re-equilibrating the scope of patent law. By immunizing the sale of staple articles of commerce from contributory liability, Congress precluded patentees from leveraging their patents into the sale of unprotected technologies.

By contrast, in copyright law, technology serves as a means to the end of promoting creation and dissemination of works of authorship – art, music, literature, film, and other expressive works. Technology provides the platforms for instantiation, reproduction, and distribution on which creative expression flourishes and commerce occurs. See

Peter S. Menell, Envisioning Copyright Law's Digital Future, 46 N.Y. Law School L. Rev. 63, 98-129 (2002-03). When new technology platforms threaten the economic infrastructure supporting creative expression, copyright law seeks to protect the system that supports the creative arts.

Enforcement differences between the patent and copyright systems reinforce the need for distinctive and tailored approaches to indirect liability. When the sale of a "staple article of commerce" contributes to infringement of patented technology by third parties, the effects are limited to a single patent or perhaps a cluster of no more than a handful of patents. Simply put, a device that contributes to infringement of a particular chemical patent or group of chemical patents is unlikely to infringe a large number of mechanical, electrical, or other chemical patents. Furthermore, the patent owner will have some ability to identify and pursue potential direct infringers by tracing the marketing patterns for the staple article of commerce. There is little reason to believe that a single staple article of commerce could threaten entire industries.

An entirely different dynamic can unfold in the copyright realm. The distribution of at least some dual-use technologies can threaten the very economic foundation of entire content industries (and even multiple industries). The peer-to-peer technology at issue in this case threatens systemic harm cutting across several broad industries – sound recording, film, television, computer software, games, eBooks. The defendants' software products have facilitated unauthorized distribution of millions of copies of protected works. Such software already has exerted a significantly adverse impact on the recording industry. It also represents a growing threat to the software industry. As broadband adoption continues, computers become faster, and computer hard drives become ever larger, such technology will eventually threaten the film industry. And as technology for eBooks becomes more widely accepted, the publishing industry will also face significant enforcement

challenges. The social and systemic benefits of being able to protect copyrights at the indirect infringement level, rather than at the end user level, are substantial. Suing thousands of end users wastes both private and public resources and is not nearly as effective as confronting enterprises whose business model is based on distributing software that is used predominantly for infringing uses.

The *Sony* Court conflated the very different attitudes of the patent and copyright regimes with regard to technology by suggesting that a finding of contributory liability in that case would confer "upon all copyright owners collectively . . . the exclusive right to distribute [VCRs] simply because they may be used to infringe copyrights." 464 U.S. at 441, n.21. But if, contrary to the Court's findings, VCRs did pose a serious threat to the "golden goose" of creative expression, then copyright law would have required a very different analytical perspective. Rather than look to patent law – which seeks to delineate the proper scope of exclusive rights in order to promote technological advance and freedom to use that which is not protected – the Court would have been better served by looking to statutory and common law regimes aimed at protecting interests threatened by technologies that can produce harmful side effects – such as tort law (nuisance, product defect) and environmental regulation. Thus, when a court enjoins a factory that spews noxious chemicals under nuisance or statutory environmental law, it would be misleading to characterize such a result as giving pollution victims "exclusive rights" over the factory's technology. A more apt characterization would be that society does not believe that the activity should be permitted in its current form. Such a perspective would not necessarily mean that the factory should be shut down permanently. But it might mean that it would have to install filters to limit the adverse effects on neighbors.

Similarly, copyright law has long constrained technologies and business practices that jeopardize the system that supports creative expression. In *Jerome H. Remick &*

Co. v. General Electric Co., 16 F.2d 829 (S.D.N.Y. 1926), a lawsuit pitting music publishers against the newly-emerging radio industry, the court had little difficulty finding that the defendant's broadcast of plaintiff's copyrighted musical composition constituted copyright infringement, despite the fact that such a holding conferred a measure of "control" over the nascent radio broadcasting industry. That case established that radio broadcasters would have to obtain valid copyright licenses if they were going to build the popularity of their medium using copyrighted content.[3] This decision did not "shut down" the radio industry. Rather it led to the development of institutions for monitoring of broadcasts and compensation of artists – such as the ASCAP blanket license – which have fostered both commercial broadcasting and the creative arts.

Respondents in the present case claim to be fundamentally different from the defendant in *Jerome H. Remick* because they do not themselves transmit infringing material. But the effective result – and possibly the purpose – of their design choices is to facilitate widespread unauthorized copying. This Court should not allow that distinction, nor the argument that finding for petitioners in this case will confer "control" of respondent's technology on petitioners, to dictate its decision. It is the *uses* of the technology, the purposes for which it was designed and is distributed, that require careful scrutiny under copyright law. Contributory infringement doctrine rightfully grants

[3] The dance hall cases can also be characterized in this way. See *Dreamland Ballroom, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929) (finding dance hall operators vicariously liable); *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159 (2d Cir. 1971) (finding booking agent vicariously liable). Dance halls, like radio and peer-to-peer technologies, can be used for infringing and non-infringing uses. The dance hall cases established that the proprietors of such facilities bore responsibility to ensure that their clubs were not used for infringing uses. In the end, most clubs complied with the law by obtaining blanket licenses through ASCAP and BMI.

"control" over these uses to the copyright holder when those uses profoundly undermine the market for the copyrighted works. The plaintiffs in this case have a legitimate interest in preventing *unauthorized reproductions* of their copyrighted work. They should not be viewed as seeking to obtain exclusive rights in staple articles of commerce. If this occasions a redesign of peer-to-peer technology, or licensing of copyrights, that would be no more radical or deleterious than other "foundational" cases in the history of copyright law.

B. Subsequent Changes to the Copyright Act Demonstrate that Congress Does Not Consider Dual-Use Technology Sacrosanct Within the Copyright Realm

Regardless of this Court's supposition in 1984, the manner in which Congress has chosen to amend the Copyright Act since the *Sony* decision demonstrates that Congress does *not* consider the patent and copyright regimes to be analogous in their treatment of indirect liability for dual-use technology. These amendments respond to the threats posed to copyright owners and future authors by the emerging digital distribution platform, which increasingly allows for rapid, nearly costless, unauthorized distribution of perfect reproductions of works of authorship. See Peter S. Menell, Envisioning Copyright Law's Digital Future, 46 N.Y. Law School L. Rev. 63, 129-38 (2002-03). Such technologies offer great opportunities but simultaneously pose serious threats. Whereas the Patent Act continues to provide an express safe harbor for any dual-use technology "capable of substantial non-infringing use," the Copyright Act today directly bans and regulates several business practices and technologies that are undeniably capable of substantial non-infringing uses.

A few months after *Sony* was handed down, Congress amended the Copyright Act's first sale doctrine, 17 U.S.C. § 109, to prohibit the rental of sound recordings. See

Record Rental Amendments of 1984, Pub. L. No. 98-450, 98th Cong., 2d Sess., 98 Stat. 1727 (1984) (codified at 17 U.S.C. § 109(b)). Notwithstanding its impact on what would otherwise be legitimate business opportunities, this amendment to the Copyright Act was intended to reduce the threat to the retail market for sound recordings from widely available and improving analog cassette recorders. A half-dozen years later, Congress embroidered on its handiwork to ban software rentals for the benefit of the software industry. See Computer Software Rental Amendments of 1990, Pub. L. No. 101-650, 101st Cong., 2d Sess., 104 Stat. 5089, 5134-37 (1990) (codified at 17 U.S.C. § 109(b)). These copyright law provisions ban business models that are capable of non-infringing uses – the rental of sound recordings and software to people who would not make copies.

With the emergence in the early 1990s of digital home copying technology capable of making flawless copies, Congress directly regulated such devices in order to protect music copyright owners against the threat of unauthorized distribution. Audio Home Recording Act of 1992 (AHRA), Pub. L. No. 102-563, 106 Stat. 4237 (codified at 17 U.S.C. §§ 1001-1010). The AHRA prohibits the importation, manufacture, and distribution of any digital audio recording device that does not incorporate technological controls to block second-generation digital copies. 17 U.S.C. § 1002(a). Thus, this technology regulation allows users to make digital copies from a compact disc, but not from digital copies made using this technology. In so doing, the AHRA limits the viral spread of copies. Consumers are allowed to make "one-off" copies, but prohibited from making copies from copies. In addition, the AHRA imposes levies on the sale of digital audio recording devices and blank media, the proceeds of which are divided among copyright owners. (The statute also exempts digital home copying using media on which the levy has been paid. 17 U.S.C. § 1008.)

Unregulated digital recording devices clearly have non-infringing uses – such as making second generation copies of public domain works or authorized works – yet Congress saw the balancing of copyright, consumer, and technological innovation interests as the appropriate solution. Unlike patent law, Congress did not afford the makers of a technology capable of substantial non-infringing uses unconditional immunity. Rather, the amendment balanced competing interests in order to address what was perceived to be a serious threat to composers, recording artists, and the businesses that market their creations.

Analogous concerns prompted computer software companies and content owners to seek greater protections against digital piracy in the mid 1990s. As the Internet became a popular platform for the exchange of information, these copyright owners came to see encryption and digital rights management as a critical element in the development of the online marketplace for content. They recognized, however, that such technologies were vulnerable to hacking – unauthorized circumvention of technological protection measures (i.e., digital locks). In 1998, Congress responded by prohibiting circumvention of technological protection measures and banning the trafficking in digital keys. See Digital Millennium Copyright Act of 1998 (DMCA), Pub. L. No. 105-304, 112 Stat. 2860.[4] The legislation makes

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[4] As explained in the Senate Report,

> Due to the ease with which digital works can be copied and distributed worldwide virtually instantaneously, copyright owners will hesitate to make their works readily available on the Internet without reasonable assurance that they will be protected against massive piracy. Legislation implementing [the World Intellectual Property Organization] treaties provides this protection and creates the legal platform for launching the global digital on-line marketplace for copyrighted works. It will facilitate making available quickly and conveniently via the Internet the movies, music, software, and literary works that are the fruit of American creative

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clear that Congress did not consider staple articles of commerce to be sacrosanct. Digital keys have substantial non-infringing uses, such as enabling consumers to gain access to copyrighted works for purposes of engaging in fair use and public domain works that may be encrypted. Yet based upon the perceived threat posed by such technologies to copyright owners, Congress prohibited the trafficking of technologies capable of non-infringing uses (subject to enumerated exemptions).

These provisions establish unequivocally that Congress views dual-use technologies differently within the context of copyright enforcement than it does in the patent realm. Particularly with regard to digital technology, copyright law reflects the concern that dual-use technologies may undermine both the existing off-line marketplace and the formation and vitality of a legal platform for a global digital on-line marketplace for "the movies, music, software, and literary works that are the fruit of American creative genius." S. Rep. No. 105-190, at 8 (1998). The structure and substance of the sound recording and software rental bans, the AHRA, and the DMCA's anti-trafficking bans demonstrate that Congress recognizes that limitations on the design, manufacture, and trafficking of technologies that are capable of non-infringing uses may be necessary and appropriate to effectuate the purposes of the Copyright Act.

In light of these legislative developments, the fundamental premise underlying the *Sony* Court's treatment of indirect liability – that parallels between Title 35 and Title 17 of the U.S. Code require the importation of the staple

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genius. It will also encourage the continued growth of the existing off-line global marketplace for copyrighted works in digital format by setting strong international copyright standards.

S. Rep. No. 190, 105th Cong., 2d Sess. 8 (1998); see also H.R. Rep. No. 551, pt. 2, 105th Cong., 2d Sess. 23 (1998).

article of commerce doctrine – does not withstand scrutiny.[5] In addressing indirect copyright liability today, the Court should read the *Sony* case narrowly and fashion indirect liability standards based upon the distinctive policies and concerns animating the Copyright Act.

III. The Courts Should Continue to Serve an Ongoing Role in Evolving Infringement Standards so as to Ensure the Efficacy of the Copyright System

A. The Copyright Act Envisions an Active Judicial Role in Evolving Copyright Infringement Standards on a Case-By-Case Basis

The general liability regime of the Copyright Act as well as long-standing jurisprudential traditions underlying the copyright law authorize courts to evolve liability standards to meet emerging needs.[6] This function is

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[5] As the basis for its reasoning, this Court in *Sony* explained:

> There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory. The closest analogy is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law.

464 U.S. at 439. The investigation carried out above explodes the notion that any historic kinship justified transplantation of patent law's staple article of commerce doctrine to copyright law. Indeed, the Court itself was seemingly aware of the make-weight nature of its reasoning, by immediately acknowledging in an accompanying footnote that, "The two areas of the law, naturally, are not identical twins, and we exercise the caution which we have expressed in the past in applying doctrine formulated in one area to the other." *Id.* at 439 n.19. Copyright's indirect infringement doctrines should be calibrated to the specific policies and balances of copyright law to the extent possible, and not other laws that serve different purposes.

[6] This Court asserted in *Sony* that the judiciary has been reluctant "to expand the protections afforded by the copyright without explicit legislative guidance." 464 U.S. at 431. Yet, as noted above, it was the

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particularly important as the digital age unfolds. Congress faces a steep challenge in responding to the myriad, rapid, and unpredictable changes taking place.[7] Although the challenges posed by new technologies warrant judicial caution and restraint, *Sony*, 464 U.S. at 429-31, failure to evolve infringement standards in response to new technological conditions exposes the copyright system to grave risks. Through the case-by-case evolution and application of infringement standards, the courts serve an essential role in completing the copyright regime and ensuring the continued efficacy of the copyright system.

The emergence of the technology at issue in this case illustrates the importance of judicial vigilance. When Congress passed the DMCA in 1998, peer-to-peer technology was not yet a policy concern. See David Nimmer, Codifying Copyright Comprehensibly, 51 UCLA L. Rev. 1233, 1357-58 (2004). Yet within a matter of months, such technology generated unprecedented levels of unauthorized reproduction and distribution of sound recordings.

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judiciary, and not Congress, that brought doctrines of indirect liability into copyright law. The courts properly recognized that failure to extend liability to those who contribute to, vicariously benefit from, and induce infringement could limit the protections afforded by copyright law.

Superficially, it might seem that affirming the Ninth Circuit's *Grokster* decision would be in keeping with other Supreme Court decisions declining to extend copyright liability to new technologies. *White-Smith Music Pub. Co. v. Apollo Co.*, 209 U.S. 1 (1908) (concluding that a piano roll was not a "copy" of a musical composition under the 1831 definition); *Fortnightly Corp. v. United Artists Television*, 392 U.S. 390 (1968) (concluding that cable retransmission was not public performance under 1909 Act). But on deeper reflection, the analogy does not fit. In both *White-Smith Music* and *Fortnightly Corp.*, the Court was confronted with the simple question whether a statutory definition – created by Congress – applied to a new activity. In the present case, the Court must decide whether a judicial test crafted two decades ago properly frames liability in dramatically different and unforeseeable circumstances.

[7] From the time Congress first requisitioned studies to serve as the basis for comprehensive reform of copyright law in 1955, it took more than two decades for comprehensive reform to reach fruition.

At the time Congress passed the DMCA, after several years of deliberation, the Internet functioned principally on a server-client model. End user computers (clients) could access information stored on Internet-accessible servers (web pages). Early skirmishes related principally to the posting of copyrighted works on such servers. Monitoring websites with search engines in conjunction with the DMCA's take-down provisions, 17 U.S.C. § 512, proved a reasonably effective means for removing copyrighted works posted without the authorization of copyright owners.

With the meteoric rise of Napster – the first Internet-based peer-to-peer technology platform – in early 2000, the music industry faced an unprecedented threat to the protection of sound recordings and the development of legitimate on-line distribution business models. Napster's technology vastly expanded the effective storage capacity of the Internet by enabling computer users running its freely distributed software to search Napster's central servers for titles of files encoded in the MP3 compression format (commonly used for sound recordings) contained on the computer hard drives of thousands of other Internet clients running Napster's software. Once they found titles of interest, they could use Napster's software to form an Internet connection to the particular computer containing the file, establish a standard Internet transfer protocol link, and quickly and effortlessly transfer the file to the searcher's hard drive. In essence, the Napster technology converted every computer running Napster's software into a "servent" – both server and client. Given the free access Napster technology provided to a vast distributed archive of sound recordings, it is not surprising that this software became the fastest adopted application in the history of computer technology, attaining tens of millions of users within a matter of months. The DMCA's take-down provisions, then just two years old, were not written to reach client-based files; yet in just a few months, Napster's technology contributed to more unauthorized copying than at any time

in the history of copyright law. See Joseph Menn, All the Rave 161 (2003) (quoting a venture capitalist's back-of-the-envelope calculation: "You've distributed more music than the whole record industry since it came into existence.").

Record labels, composers, music publishers, and recording artists attacked the problem by suing Napster for indirect copyright infringement. Although Napster did not engage in any direct acts of copying or distributing copyrighted works of others, its software in combination with its centralized indexing function facilitated rampant unauthorized distribution of copyrighted works. The alternative of suing individuals using the software would have been time consuming, expensive, and far less effective in stemming the unauthorized distribution occurring through the Napster network. The district court issued a preliminary injunction and the Ninth Circuit ultimately held, on somewhat different grounds, that Napster was indeed liable. See *A&M Records v. Napster*, 114 F.Supp.2d 896 (N.D. Cal. 1999); 239 F.3d 1004 (9th Cir. 2001).

But this ruling exerted little effect. Any curtailment of unauthorized distribution of copyrighted works through peer-to-peer technology was short-lived as new peer-to-peer software enterprises, built upon less centralized software architectures, entered the market. These peer-to-peer technologies pose even greater exposure for copyright owners than Napster because they are not limited to the distribution of music files. The new services allow for the distribution of just about any type of file – including movies, software, photographs, and eBooks. Unlike Napster, which operated during its brief existence without any direct revenue model, many of the second generation peer-to-peer system enablers, including the defendants in this case, designed their systems to deliver advertisements (in the form of banners, pop-ups, and other text boxes that appear on users' computer screens). Seeking to avoid copyright liability, they designed their technology in such a way as to limit their control over the peer-to-peer network, yet nonetheless derive substantial advertising revenue from the network's use.

In view of this rapidly changing environment, the appropriate mix of decisionmaking authority can best be achieved through a narrow interpretation of the *Sony* case – i.e., limiting it to the distinctive facts presented – thereby enabling courts to evaluate emerging threats to the copyright system as they arise. The broad reading of the *Sony* decision given by the Ninth Circuit largely eliminates the judicial role by unduly constraining the factual inquiry necessary to evaluate and address new problems and immunizing conduct that poses great actual and potential harm to copyright owners and the copyright system generally so long as the defendants can point to nontrivial potential non-infringing uses.

The circumstances surrounding peer-to-peer software at issue in this case could hardly be more different from those confronted in *Sony*. Whereas the VCR merely allowed for the making of single copies of otherwise authorized, freely distributed, over-the-air television broadcasts, the defendants' peer-to-peer software and business models provide the means for widespread unauthorized reproduction *and* distribution of copyrighted works. In contrast to the VCR, the technologies distributed by the defendants are used predominantly for infringing uses that have caused demonstrable harm to copyright owners and inhibited the development of new markets for their works. See Stan J. Liebowitz, File Sharing: Creative Destruction or Just Plain Destruction? (December 2004), available at http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=59984 (concluding that "[d]ata limitations notwithstanding, the evidence seems compelling that file-sharing[8] is responsible for the recent large decline in CD sales for

[8] The term "file sharing," although commonly used to refer to peer-to-peer technology, is a misnomer. A more accurate, if less concise, characterization of what such technology accomplishes is "file search, reproduction, and distribution." Files are not shared in the conventional sense of common use. Following a peer-to-peer transaction, one copy of the file remains on the host computer and another identical copy resides on the recipient's computer.

which it has been blamed"). Nonetheless, because of the uncritical application of what they interpreted to be a bright line, categorical rule – whether technology is "merely capable of substantial non-infringing uses" – both courts below disregarded evidence about *relative* harm and benefits in dismissing the plaintiffs' lawsuits at the summary judgment stage. Furthermore, summary adjudication precluded the development of an adequate record for fully considering liability and potential remedies.

B. The Court Should Utilize a Comprehensive Balancing Test for Delineating the Contours of Contributory Liability

To a much greater extent than the Patent Act's indirect liability provisions, copyright law's principles, as reflected in its infringement jurisprudence and the AHRA and DMCA, provide valuable insight and guidance for delineating indirect copyright liability standards. In both the AHRA and the DMCA, Congress balanced the interests in protecting copyrighted works from unauthorized distribution against the social interest in technological innovation and consumer autonomy. In neither case did Congress determine that dual-use technology should be immune from liability. The AHRA regulates the design of products to limit unauthorized reproduction while creating a form of ex ante remedy to compensate creators for likely losses. 17 U.S.C. § 1001 *et seq*. The DMCA, which relates to technological measures controlling access to copyrighted works, prohibits both specific acts to circumvent the technological measure and the manufacture, importation, trafficking in, and marketing of devices that: (1) are primarily designed or produced for the purpose of circumventing a technological measure that effectively "controls access to" a copyrighted work; (2) have only limited commercially significant purpose or use other than to circumvent such technological protection measures; and (3) are marketed

for use in circumventing such technological protection measures. 17 U.S.C. § 1201(a)(2).

Extrapolating from and extending the principles underlying these provisions to the more general context of indirect copyright liability, courts can best promote copyright law's essential purpose of providing meaningful legal protection against unauthorized reproduction and distribution of works of authorship without unduly undermining technological advance or consumer autonomy by assessing the *relative* harms and benefits associated with dual-use technologies. If a product or service has substantial non-infringing uses and relatively little infringing use, as with the VCR in the *Sony* case, then copyright law should not impose liability.[9] By contrast, if a product or service has relatively modest non-infringing uses and causes substantial harm to copyright owners, then courts should delve into the circumstances surrounding the activities in question. Such an inquiry should assess the following considerations:

- the knowledge possessed by the defendants about infringing use;
- the extent to which aspects of the product or service were designed purposefully and without functional advantages to evade liability, see *In re Aimster*, 334 F.3d 643, 650 (7th Cir.

[9] Where a particular product feature that is separable from the larger product has modest non-infringing uses but substantial infringing attributes, courts should conduct a more focused analysis along the lines discussed below. It may be possible to order targeted design changes that will preserve the principal non-infringing uses while limiting significant infringing uses.

2003) (suggesting that indirect liability doctrine should discourage willful blindness by technology developers and distributors to the adverse effects of their products); Douglas Lichtman, How the Law Responds to Self-Help 49 (2004) (available at www.repositories.cdlib.org/bclt/lts/paper1); cf. Restatement (Third) Torts § 2(b) (extending tort liability to defectively designed products based on whether "the foreseeable risks of harm posed by the product could have been reduced or avoided by the adoption of reasonable alternative design by the seller");[10]

[10] Counsel to one of the defendants in this case illustrates how a broad reading of the *Sony* decision provides a blueprint for designing businesses that can pose a serious threat to the copyright system:

> Can you plausibly deny what your users are up to? . . .
>
> Have you built a level of 'plausible deniability' into your product architecture? If you promote, endorse, or facilitate the use of your product for infringing activity, you're asking for trouble. . . . Software that sends back user reports may lead to more knowledge than you want. Customer support channels can also create bad "knowledge" evidence. Instead, talk up your great legitimate capabilities, sell it (or give it away), and then leave the users alone.
>
> Disaggregate functions . . . In order to be successful, peer-to-peer networks will require products to address numerous functional needs – search, namespace management, security, dynamic file redistribution, to take a few examples. There's no reason why one entity should try to do all of these things . . . .
>
> This approach may also have legal advantages. If Sony had not only manufactured VCRs, but also sold all the blank video tape, distributed all the TV Guides, and sponsored clubs and swap meets for VCR users, the Betamax case might have turned out differently. . . . A disaggregated model, moreover, may limit what a court can order you to do to stop infringing activity by your users.

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- whether non-infringing uses can be achieved for most consumers through other means without significant added expense, inconvenience, or loss of functionality;[11]

> . . . Give up the EULA. . . . Although end-user license agreements ("EULAs") are ubiquitous in the software world, copyright owners have attempted to use them in P2P cases to establish "control" for vicarious liability purposes. . . .
>
> No direct customer support. Any evidence that you have knowingly assisted an end-user in committing copyright infringement will be used against you. . . .
>
> So let the user community support themselves in whatever forums they like. . . . Your staff can monitor forums and create FAQs that assist users with common problems, but avoid engaging in one-on-one customer support.

Fred von Lohmann, Electronic Frontier Foundation, "IAAL [I am a Lawyer]: What Peer-to-Peer Developers Need to Know about Copyright Law", § V.7 (December 2003) (http://www.eff.org/IP/P2P/p2p_copyright_wp.php).

[11] Many if not most of the non-infringing uses alleged in the present case could be accomplished through conventional client-server functionality. For example, bands willing to distribute their creations without compensation can upload their sound recordings to web pages or make them available through a growing number of promotional music services. Many public domain works, such as the Bible, are available directly through Internet sites. With regard to "sampling" of music in advance of purchase, most music copyright owners now authorize online retail services to stream 10 to 30 second segments of protected sound recordings on their websites. Although peer-to-peer technology can offer functional advantages over the conventional client-server Internet architecture in terms of reducing congestion in downloading large files from a single or limited number of sources, most users do not appear to be gravitating toward the defendants' products for such purposes. Based on usage patterns, they appear to be most strongly motivated by the ability to gain access to works that they would otherwise have to purchase. That does mean that each download using peer-to-peer technology supplants a retail sale. Many consumers are not willing to pay the going price. Furthermore, such technology may well increase sales through a promotion effect. But such technologies adversely affect revenue in some content industries and inhibit the rollout of legitimate business models. See Liebowitz, supra. At a full

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- the extent to which copyright owners can protect themselves against such infringements without undue cost (e.g., through self-help mechanisms such as encryption);[12]
- the extent to which infringement affects only a limited number of works;
- the cost and efficacy of enforcement against direct infringers;[13]
- the extent to which the plaintiffs seek to expand unduly the scope of their copyrights for purposes of controlling new markets, as opposed to protecting their copyrighted works (copyright misuse);[14] and
- the impacts of potential remedies on both infringing and non-infringing uses.

Other considerations may well be relevant in particular cases, but this list provides a starting point for assessing contributory liability. Cf. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n.19 (1994) (outlining non-exclusive list of factors for courts to consider when awarding fees under the Copyright Act).

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trial, the parties would be able to provide fuller evidence regarding the use of the technology at issue.

[12] Part of the difficulty with self-help in the present case is that a large legacy of copyrighted works has already been released in unencrypted form. Furthermore, as reflected in the growing availability of decrypted film products on peer-to-peer networks, feasible self-help options might not be sufficiently effective.

[13] Where cost-effective means exist to enforce copyright protection against direct infringers, curtailing liability for dual-use technology does not jeopardize copyright protection and promotes diffusion of technology offering non-infringing uses.

[14] This consideration does in fact connect to the purposes underlying patent law's staple article of commerce doctrine. But given the other considerations of concern in copyright law – most notably the potential for systemic harm from some dual-use technologies – courts should not elevate this consideration above all others.

Such a comprehensive framework provides a systematic basis for balancing the promotion of creative arts with technological innovation and consumer autonomy. Properly applied, such a test would not jeopardize the vast majority of dual-use technologies – such as "a typewriter, a recorder, a camera, a photocopying machine," *Sony*, 464 U.S. at 425 (quoting from the district court) – nor unduly chill technological innovation. It would require courts to undertake a detailed analysis of a broad range of considerations in some cases, such as the present dispute. But as in other aspects of copyright infringement analysis – such as non-literal infringement and fair use – the courts can be expected to develop, refine, and implement sound doctrines for delineating the contours of indirect liability. Such an approach can be expected to promote the development and marketing of technologies that further a broader conception of consumer welfare – technologies that enhance functionality of information distribution platforms without unduly cannibalizing content industries. Furthermore, if the need arises, Congress can step in and provide more specific guidance on the contours of indirect liability. But given the general infringement default regime that has served copyright law well for over two centuries, courts should not bind themselves in advance through adoption of prospective, non-statutory safe harbors. In addition to technology-specific provisions set forth in the Copyright Act, copyright law provides for ongoing judicial evolution of infringement standards to address threats to copyright owners and the copyright system more generally.

CONCLUSION

For the reasons set forth above, it is time to discard overbroad interpretations of the *Sony* case. The Court should articulate a comprehensive, open-ended framework for delineating the scope of contributory infringement and remand this matter for a full trial applying such a balancing standard and more fully assessing liability for inducement and vicarious liability.

Respectfully submitted,

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